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## India's Service Sector - Shaping Future of Indian Retail Industry

Rachna S. Singh<sup>a\*</sup><sup>a</sup>Lecturer, VIVA College of Arts, Science & Commerce

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### Abstract

The Purpose of my Research Paper is to focus on potentiality and strength of India's Service Sector in shaping Business through Retail Sector. The distinct characteristics of services are intangibility, perishability, inseparability, variability, ownership, simultaneity; quality measurement etc. This study is to discover the remarkable changes in Service Sector and its overall impact in structuring Business through Retail Sector. As Service plays vital and crucial role in the pace growth of Indian Economy, this research paper also depict the role of services in Modern Economy, reasons for the growth of Services in India with addition of analyzing the transformation in this Sector. With its emerging nature it has become the fastest-growing sectors on the global landscape and hence it has made substantial contribution towards global output as well as employment generation. According to Adrian Payne four factors i.e. economic, political, social and demographic changes are responsible for stimulating growth in service sector. They are: demographic, social, economic and political changes. With around 1.2 billion population India's Services share to Total GDP for the year 2012-2013 is 59.29% and Retail sector contributes by 14 % to 15 % of its GDP for Indian Economy. My research paper will put emphasize on how Retail Industry get empowered by this "Tertiary Sector" and implication on FDI (Foreign Direct Investment) .The research also calls attention to the related case study in order to develop business in retail industry. The purpose of this paper is to examine the characteristics of the retail service sector in India and underlines its future prospects.

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\* Corresponding author.

E-mail address: [rachanasingh1803@gmail.com](mailto:rachanasingh1803@gmail.com)

## 1. Introduction

A Service is a form of product that consists of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Philip Kotler and Bloom define services as, “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”

The distinct characteristics of services are intangibility, perishability, inseparability, variability, ownership, simultaneity, quality measurement etc.

## Examples of Business Services

**Table 1.1 Various example of Business Services**

Retailing	Courier Service	Hotel	Restaurant
Advertising	Education	Airlines	Consultancy
IT Service	Banking Services	Medical Services	R&D Services
Education	Legal Services	Maintenance	Investment Advising
Beauty Saloon	Theme Park	Marketing Research	Accounting & Tax

Various Business Sectors (Table 1.1) in India is growing at a faster rate and strengthens our Indian Economy by contributing 59.29 % to total GDP (Gross Domestic Product) (2012-2013). Post Independence in the financial year of 1951-1952 it was about 29.63% share to total GDP which further accelerated by 43.91% during post liberalization period (1991-1992). Retail Industry accounts for 14 – 15 % GDP for Indian Economy and estimated to be US\$ 500 billion and is expected to rise about US\$ 2500 billion in 2016. Overall different Service Sectors in India generates employment and create stability in the market as well as in global economy.

## 2. Research Objectives

- To identify the role of Service Sector in Strengthen the Indian Economy.
- To evaluate the reasons for the remarkable growth of Service Sector.
- To observe the growth of Indian Retail Service Sector and the scenario of FDI in Retail Industry.
- To visualize future prospects of Services in India's Retail Sector.

## 3. Literature Review

With increasing growth of GDP percentage in Service Sector and empowering our economy through employment generation, providing varieties of services, creating competition through different market segmentation and ultimately lead to customer satisfaction tremendous demand for service sector is increasing day by day. Lovelock (1983) provides a series of classification which together illustrates the complete nature of services and provides

useful background for managerial purposes. Whereas, Schmennet (1986) recognizes that some services may be more customized and involved a higher degree of labor intensity and help the reader to understand the strategic and tactical options available. Vandermerwe & Chadwick (1989) recognizes the importance and role of good components in *service business*.

#### 4. Research Methodology

The data is primarily collected from secondary sources with the aid of books, newspaper, magazine, journals and internet.

#### 5. Service Sector-The New Growth Engine of Indian Economy

Indians are undergoing a distinct change. Services play a dominant role in our lives. Services sector is the fastest growing sector of the Indian Economy. It clocked a growth rate of 8% in the 90s. One in two Indians earn their living from services. This is much diversified sector ranging from housemaids to neurosurgeons. Three related events of the 1990s gave a boost to services. Explosion of IT sectors like telecom, software, finance and banking. Globalisation of business and consumer tastes powered boom in accountancy, law, entertainment and retailing.

The Service industry was just a 50 million industry in 1989. Today it is worth around \$12 billion and is projected to grow to \$87 billion in future and provides employment over 70 lakh people.

**Table 1.2 GDP Distribution of three sectors for 5 years**

Financial Year	Agriculture & Allied services to Total GDP (%)	Industry share to Total GDP (%)	Services Share to Total GDP (%)
1991-1992	28.54	27.33	43.91
2009-2010	14.64	28.27	57.09
2010-2011	14.45	28.23	57.32
2011-2012	14.10	27.51	58.39
2012-2013	13.68	27.03	59.29

We can interpret from the above data (Table 1.2), that post liberalization has flourished the entrant of multinational companies in India with certain liberal policies and thus it rise the service share to total GDP with lots of employment opportunities as well. As we can observe (Table 1.2) that the rate of contribution of GDP for Agriculture and as well as Industry is slowing down gradually, but certainly the Service Sector is on continuous fastest growing stage.

#### Remarkable growth Observe in India's Service Sector –International Comparison

India's services sector is still growing at much higher rate as compare to primary and secondary sectors of Indian

Economy. In 2011, service sectors contribute was 67.5 per cent in the world GDP of US \$70.2 trillion. In terms of services GDP the top 15 countries are same in overall GDP in 2011.

Among the top 15 countries i.e. USA, China, Japan, Germany, France, Brazil, UK, Italy, India, Russia, Canada, Australia, Spain, Mexico and South Korea with highest overall GDP in 2011, India ranked 9<sup>th</sup> in overall GDP and 10<sup>th</sup> in services GDP. Among the top 15 countries, from the year 2001 to 2011 comparison of performance shows that increase in the share of services in GDP is the highest for India with 8.1 percentage points followed by 6.3 percentage points by Spain. Thus it reflects the empowerment of service sector over other two sectors of our economy.

In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry.

### **Reasons for the growth of Services in India**

- **Economic Affluence-:** The increase in per capita income (from Rupees 238.8 in 1950 to Rupees 11,934 in 1998) is an indicator of the increase in general affluence level. The increase in affluence has given rise to services like pest-control, personal security interior designer etc.
- **Changing Role of Women-:** As soon as more women have started working, the needs for day care for children have increased, and so is the case with packed food and home delivery.
- **Leisure Time-:** People do get some time to travel and holiday and therefore there is a need for travel agencies, resorts, hotels, tourism and entertainment. There are others who would like to utilize this time to improve their career prospects and therefore there is a need for adult education/distance learning/ part-time courses.
- **Life's Expectancy-:** The health programmes have significantly contributed to an increase in life expectancy, giving rise to services like old age homes, nursing homes, healthcare, growth of fitness clubs; diagnostic centres, medical counseling, and health related information sites are the reflection of the growing demands for health care services.
- **Product Complexity-:** A large number of products are now being purchased in households which can be serviced only by specialized persons like water purifiers, microwave ovens, home computers, etc giving rise to the need for services like 'after sales service' agents for durable, maintenance services providers, etc.

- **IT Revolution:** With largest software skilled population in the world, India with domestic market as well as international market has increased at pace rate. It ultimately lead to demand for the service sector as well as employment generation.
- **Development of Markets-:** A new breed of organizations, offering marketing services has come up. The government also offers marketing services to the small-scale agricultural farmers, artisans and other traditional business sectors such as promotion of regulated markets, export promotion councils, development boards etc.
- **Market Orientation-:** Market is a service function that has been added in the organization. The pressure in the market has further forced the manufacturing organizations to have marketing research, accounting, auditing, financial management, human resource management and market research divisions-all of which are services functions.
- **Economic Liberalization-:** The economic liberalization of the 1991 has brought many changes in the Indian scenario. Liberal lending policies and lower interest rates motivated many people to become self employed. Different sectors like Banking, Insurance, power projects, Telecommunications, Hospitality Sector, Health Services, Entertainment, Air Transport, and courier services witnessed intense competition due to the entry of multinationals.
- **Export Potential-:** India is considered to be a potential source of services. Tourism and software services are among the major foreign exchange earners of the country and that the growth rate is also very high as compared to other sectors.
- **Service Tax-:** The growth in the service sector attracted the attention of the government as a tax generating source. Service tax is levied on hotels and restaurants, transport, storage and communications, financial services, real states, business services and social and personal services.

### **India's Service Sector shaping business through Retail Industry** **Introduction to Retail Sector in India**

Among top five fastest growing markets globally Indian Retail Sector is one of them and it is expected to touch \$637 bn by the year of 2015. Retailing by its very nature, is a dynamic industry. Lots of developments have been observed in this industry from unorganized to organized section. Updated technology is utilized for further more innovation in order to tap the untapped prospect buyers with the assistance of various advertising and promotional strategies. According to Philip Kotler: "Retailing includes all activities involved in selling goods or services to the

final consumers for personal, non-business use". A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing.

By contributing 14 to 15 percent of the GDP, it is estimated to be worth around US\$ 500 billion currently. India offers immense scope of growth and opportunities in this arena. The retail sector has recently experienced dramatic technological changes and substantial growth. For example, information technology (IT), such as point-of-sale systems and electronic business transactions, enables retail stores to manage inventory more efficiently.

Indian retail industry has expanded by 10.6 per cent between 2010 and 2012 and is expected to increase to US\$ 750-850 billion by 2015. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by Apparel (8%) and Mobile & Telecom segment (6%). In total retail market 8% constitutes to the organized sector which is growing much faster than traditional retail market (92% for unorganized sector). It is estimated by various sources that organized retail counter for 20% by the year 2020 driven by the emergence of shopping centers and malls and a middle class of close to 300 million and whose numbers are growing at nearly 2 percent a year.

#### **FDI in Indian Retail Service Sector-:**

With FDI (Foreign Direct Investment) of 100% in Single retail brand and 51% in multi-brand retail, Indian Retail Sector is gaining momentum with various major benefits. For FDI Policy in multi-brand retail in the year 2010 (May) DIPP (Department of Industrial Policy & Promotion) releases a discussion paper soliciting public views on allowing FDI in Retail Sector and thus by the year 2012 (sept.) Union Cabinet passes and enact the new policy allowing up to 51% FDI in multi-brand retail.

FDI in Retail Sector provides major benefits such as improvement in forex position, capital formation, productivity through employment generation, transfer of new technologies, management skills, intellectual property, increasing export, tax revenues as well as increases competition within the local market and this brings higher efficiencies etc. As every coin has two sides, FDI in retail face challenges and problems like domestic companies face the threat of losing their ownership to overseas company, small enterprise fear that they may not be able to compete in the Market, foreign companies invest more in machinery and intellectual property than in wages of the local people and government has less control over the functioning of such companies etc.

Implication of FDI policy on different stakeholders like to *Farmers* because of high penetration of organized retail the role of middlemen would be reduced, to *SME* segments the policy conditions of 30% sourcing from small enterprises will enable them to work with large retailers, to *consumers* as they are becoming brand conscious, they will have a wider choice and a better shopping experience. However, FDI policy conditions for 50% investment in backend and 30% sourcing from small industries are the two most difficult conditions to be met for FDI in multi-brand specialty retail.

### **Future Prospects of Services in Retail Sector in India**

Post liberalization in Retail sector in India. Today within the booming service sector, retailing is the single biggest contributor in terms of GDP to nation income it can be further divide in to organize an unorganized sector.

- **Organized sector**

- As Organized Retail Sector constitutes to 8% and it is estimated to be 20% by the year 2020. Indian Corporate like Pantaloon, Reliance and ITC enter into segment along with various foreign brands. With greater purchasing power amongst the middle class, it has resulted in the establishment of departmental stores, supermarkets, rural retailing, e- retailing and luxury retailing. These different sectors have a unique advantage and the scale of operation depends upon factors like average footfalls, sales per sqft etc. However the process of acquiring license is still a bottleneck for the development of Indian Retailing.
- FDI in specialty stores: Multi-brand organized retail in specialty stores such as Consumer Electronics, footwear, furniture and furnishing etc. are expected to expand and mature in next few years. However the policy condition on sourcing will continue to be a major bottleneck for FDI in many of these segments.

- **Unorganized sector**

- The unorganized sector is still dominant in India with 92% in total retail market, since it has the advantage of low investment and pricing of products is very important and crucial for traditional retailer as well as for the consumer. Unorganized retailers play an important role in this regard and are a vital part of the supply chain. Flexible credit options and convenient shopping locations will help traditional retail to continue its dominance in retail sector.

- **Rural Retailing**

- India's huge rural market has also attracted retail investments and is seen as a viable opportunity for growth by corporate India. ITC launched the country's first rural mall "ChaupalSagar" with diverse products being offered ranging from FMCG to electronics appliance to automobiles, with a view to provide farmers a one stop centre for all their consumption requirements. Many more new trends could possibly be tried in rural markets to unearth the huge potential.

### **Case Study**

#### **Impulse Buyers: The First 15 Seconds, and Other Tips for Retailers**

The Retail Food Outlets should position impulse products at the entrance as a customer is making impulse buying decisions in the first 15 seconds of entering a supermarket or a retail outlet, a study has revealed.

A consumer behavior research carried out by Mr.SusilDungarwal, Customer Care Executive and CEO, Lakewood Malls Pvt. Ltd, has revealed that a customer is at her/ his 'impulsive best' when he enters the retail outlet or the supermarket. "The customer purchases the most at this time," Mr.Dungarwal said. His study of consumer behavior is based on the recordings of the closed circuit television camera installed at the Lakewood Malls Pvt.Ltd's supermarket, Haiko, in Mumbai.

According to Mr.Dungarwal, the idea of a research on consumer behavior based on closed circuit television camera was hit upon quite by chance while going through the recordings. "While going through the recordings I found that the customer was looking at the price before buying," he said.

Mr.Dungarwal carried out his first research a year ago and followed it up periodically in a bid to understand the changing consumer behavior in a supermarket. He believes that supermarkets can optimize sales by right placement of products. As a customer starts with impulse buying soon after the entry, the supermarkets could optimize the sales by the right placement of impulse products including chocolates and biscuits.

In the placing of products, the shelves higher than 4.5 feet are inconvenient for customers to physically reach to the products. "Consumers tend to reach for product placed at eye level. Therefore it makes sense to place combo packs or larger packets as a value for money proposition, both for the customer as well as the retailer," he said. Big packets should be kept at eye level and smaller packets at a lower level."This is because, people will first pick up products at eye level as against bending down picking up a product," he said

His study also revealed that the placement of goods should follow the progress of the day starting with products that are used in the morning, followed by breakfast items, morning health foods, toiletries, foodgrains, pulses, and utility items ending with the gifting sections.

## Findings

- The Indian service industry has emerged as one of the largest and fastest-growing sectors on the global landscape with India ranked 9<sup>th</sup> in overall GDP and 10<sup>th</sup> in services GDP.
- Economic Liberalization, market orientation, changing the role of women, export potential, service tax etc are some of the reasons for the growth of India' Service Sector.



- Indian Service Sector shaping the business through retail sector which accounts for 14-15 per cent of the gross domestic product and the implication of FDI to different stakeholders.
- India's Service Sector through retail business generates employment, literacy opportunities, rise in income level, increase in standard of living etc.
- Future prospects of Retail service sector in relation with organized sector, unorganized sector and rural retailing.

### Conclusions:-

India's Service Sector (Tertiary Sector) constitutes to 59.29% to total GDP as compare to Primary (13.68%) and Secondary (27.03%) Sector in Indian Economy. Retail Industry as a part of Indian Service Sector contributes about 14-15% GDP in the growth of Economy. FDI in Retail with 100% in single brand and 51% in multi-brand empowered the retail sector and to different stakeholders (Farmers, SME, Consumers, retailers, etc) by giving an opportunity to grow and prosper their business. Thus India's Service Sector is shaping the future of Business through Retail Industry.

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